



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

May 11, 2005

TO: Representative Jim McIntire, Chair
Senator Joseph Zarelli
Senator Mark Doumit
Representative Ed Orcutt
Victor Moore, OFM, Director
Cindi Yates, DOR, Director

FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: May 10, 2005 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,000.6 million in the April11–May 10, 2005 collection period. Tax payments were \$46.0 million (4.8 percent) more than the estimate for the period. Revenue Act (retail sales, business and occupation, use and public utility) taxes (+\$36.4 million) and real estate excise tax (+\$8.3 million) accounted for most of the positive variance. Most major non-revenue act taxes including the estate tax (+\$2.3 million), and the state levy (+\$1.3 million), were also above the estimate for the month. This month's positive variance is overstated however, due to special factors. The Revenue Act estimate for this period assumed that some of the refunds associated with the Agrilink court case would be made this month; however, these refunds were delayed and were not issued this month. In addition, there was an unusually large (\$6.5 million) assessment payment this period. These factors overstate the Revenue Act variance by \$22.5 million dollars. Excluding these special factors, Revenue Act collections are still \$13.9 above the estimate for the month and total GFS receipts are \$23.5 million higher than expected. This month's positive variance more than offset last month's small shortfall. Cumulatively for the two months since the March 2005 forecast, General Fund-state collections are \$44.7 million (2.7 percent) higher than expected. Excluding special factors, collections are cumulatively \$22.2 million (1.3 percent) higher than expected. Despite mixed economic news, the revenue forecast remains on track.

The Bureau of Economic Analysis reported that real Gross Domestic Product (GDP) grew only 3.1 percent in the first quarter of 2005. This was both weaker than in the previous quarter (3.8 percent) and weaker than assumed in the March 2005 forecast (3.6 percent). In addition the Conference Board reported that both its index of consumer confidence and the U.S. Index of Leading Indicators fell in the most recent month. The consumer confidence index fell for the third consecutive month in April. Although the index is lower than in recent months, it remains above its year-ago level. The U. S. index of leading indicators declined in March after posting a small increase in February. Employment numbers, on the other hand, were better than expected. U.S. economy added 274,000 jobs in April 2005 and the numbers for March and February were revised upward. The April increase was about 100,000 higher than what most economists had expected. At the state level, wage and salary employment rose for the sixth straight month in April and employment growth for the first quarter was about what was assumed in the March 2005 forecast.

Spending as reflected by sales, use and business and occupation tax payments accelerated this month. Revenue Act receipts were 7.9 percent (adjusted for special factors) higher than a year-ago in the April 11- May 10 collection period (primarily reflecting March 2005 business activity). Revenue Act tax payments increased 6.4 percent last month and were up a strong 9.4 percent for the first quarter of 2005. For the fiscal year-to-date collections are a solid 7.9 percent higher than a year ago.

Preliminary industry data for the April 11, to May 10, 2005 collection period based on payment data of more than 14,600 taxpayers who filed electronically show moderate to strong growth across-the-board. Businesses in the retail trade and food services sector reported a 7.5 percent increase in tax payments. Last month retailers reported a 6.0 percent gain. All retail NAICS sectors reported increases. Double digit gains were reported by building materials/garden retailers (+13.6 percent), gas stations and convenience stores (+13.8 percent), general merchandise stores (+13.2 percent) and apparel and accessories retailers (+10.7 percent). On the other hand, motor vehicles & parts retailers reported only a 1.6 percent increase in tax payments. Last month they reported a 0.8 percent decline. Overall, tax payments by non-retail trade and food services business were 8.1 percent higher than a year ago. Last month this category reported a 5.3 percent increase. The construction sector remains strong, reporting a 16.1 percent increase in tax payments for the period. Businesses in the manufacturing sector reported a 12.9 percent increase and the wholesale trade sector reported a 5.9 percent increase. The strong real estate market continues to boost overall spending. For the month, tax payments in sectors that are related to real estate activity (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) were up 13.5 percent, about double the increase (6.5 percent) of all other sectors.

Non-Revenue Act General Fund taxes were \$8.8 million above the estimate this period. Stronger than expected real estate excise tax (\$8.3 million), estate tax (+\$2.3 million) and the state levy (\$1.3 million) more than offset weaker than expected "other" revenue, primarily, brokered natural gas and leasehold excise taxes and nursing home fees. Although the State Supreme Court effectively abolished the estate tax for decedents dying after December 31, 2004, because estates are allowed up to nine months to file estate tax returns, payments of decedents dying prior to December 31, 2004 are still being received. A portion of these payments, however, may end up being refunded. Cumulatively, for the two months since the March forecast non revenue act sources are \$14.9 million above the estimate, with real estate excise tax (+\$7.5 million) and the estate tax (\$4.7 million) accounting for most of it.

Real estate activity still remains strong. Taxable activity (based on closings in March which reflect tax payments to the state in April) was 35.6 percent higher than a year-ago. Last month activity was up 38.1 percent and two months ago it increased 54.4 percent. Higher prices continue to drive the increase in activity, although the increase in the number of transactions has accelerated in the last couple of months. In March, the average price per transactions rose 20.8 percent while the number of transactions increased 12.3 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$826,000 above the estimate for the month. Cumulatively, Department of Licensing collections are \$1.2 million higher than expected.

The attached Table 1 provides a comparison of collections with the March 2005 forecast for the April 11 – May 10, 2005 collection period and cumulatively since the March 2005 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
May 10, 2005 Collections Compared to the March 2005 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
April 11 - May 10, 2005				
Department of Revenue-Total	\$951,430	\$996,628	\$45,198	4.8%
Revenue Act** (1)	825,839	862,236	36,398	4.4%
Non-Revenue Act(2)	125,591	134,392	8,801	7.0%
Liquor Sales/Liter	7,974	8,560	586	7.3%
Cigarette	3,870	4,414	544	14.1%
Property (State School Levy)- net after transfer	38,494	39,771	1,277	3.3%
Property tax collections	60,489	61,766	1,277	2.1%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	0	0.0%
Estate	0	2,260	2,260	NC
Real Estate Excise	58,652	66,959	8,308	14.2%
Timber (state share)	0	0	0	NA
Other	16,601	12,428	(4,174)	-25.1%
Department of Licensing (2)	3,139	3,965	826	26.3%
Total General Fund-State***	\$954,568	\$1,000,593	\$46,024	4.8%
Cumulative Variance Since the March 2005 Forecast (March 11, 2005 - May 10, 2005)				
Department of Revenue-Total	\$1,670,840	\$1,714,283	43,442	2.6%
Revenue Act** (3)	1,486,469	1,515,021	28,553	1.9%
Non-Revenue Act(4)	184,372	199,261	14,890	8.1%
Liquor Sales/Liter	15,176	16,047	871	5.7%
Cigarette	7,806	8,611	805	10.3%
Property (State School Levy)-net after transfer	37,831	38,848	1,017	2.7%
Property tax collections	81,821	82,838	1,017	1.2%
transfer to the Student Achievement Acct.	(43,990)	(43,990)	0	0.0%
Estate	0	4,681	4,681	NA
Real Estate Excise	104,679	112,155	7,476	7.1%
Timber (state share)	0	(0)	(0)	NA
Other	18,880	18,919	40	0.2%
Department of Licensing (4)	3,835	5,079	1,244	32.4%
Lottery (GF portion)	0	0	0	NA
Total General Fund-State***	\$1,674,676	\$1,719,361	\$44,686	2.7%

1 Collections April 11 - May 10, 2005. Collections primarily reflect March 2005 activity of monthly taxpayers.

2 April 1-30, 2005 collections.

3 Cumulative collections, estimates and variance since the March 2005 forecast; (March 11 - May 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the March 2005 forecast; (March and April 2005) and revisions to history.

* Based on the September 2002 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 97% of total General Fund-State revenue.

TABLE 2
April 10, 2005 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
March 11 - April 10, 2005				
Department of Revenue-Total	\$717,655	\$717,655	(\$0)	-0.0%
Revenue Act (1)	652,785	652,785	0	0.0%
Non-Revenue Act(2)	64,869	64,869	0	0.0%
Liquor Sales/Liter	7,488	7,488	(0)	-0.0%
Cigarette	4,190	4,190	(0)	-0.0%
Property (State School Levy)-net	(923)	(923)	(0)	0.0%
Property tax collections	21,072	21,072	(0)	-0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	2,421	2,421	(0)	-0.0%
Real Estate Excise	45,171	45,171	0	0.0%
Timber (state share)	0	0	0	NA
Other	6,523	6,523	0	0.0%
Department of Licensing (2)	928	1,086	158	17.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	718,583	718,740	\$157	0.0%

Cumulative Receipts: March 11 - April 10, 2005 & Revisions to History

Department of Revenue-Total	717,655	\$717,655	(\$0)	-0.0%
Revenue Act (3)	652,785	652,785	0	0.0%
Non-Revenue Act(4)	64,869	64,869	0	0.0%
Liquor Sales/Liter	7,488	7,488	(0)	-0.0%
Cigarette	4,196	4,190	(6)	-0.1%
Property (State School Levy)-net after transfer	(923)	(923)	(0)	0.0%
Property tax collections	21,072	21,072	(0)	-0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	2,421	2,421	(0)	-0.0%
Real Estate Excise	45,196	45,171	(25)	-0.1%
Timber (state share)	0	(0)	(0)	NA
Other	6,492	6,523	31	0.5%
Department of Licensing (4)	957	2,182	1,225	128.1%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$718,612	\$719,837	\$1,225	0.2%

Preliminary. Reported in the April 10, 2005 collection report.

1 Collections March 11 - April 10, 2005. Collections primarily reflect February 2005 business activity of monthly taxpayers.

2 March 1-31, 2005 collections.

3 Cumulative receipts since the March 2005 forecast: March 11- April 10,2005 & revisions to history.

4 Cumulative receipts since the March 2005 forecast (March 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

